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The Railway Situation and Its Causes

An Address Delivered

before

THE TRANSPORTATION CLUB
OF INDIANAPOLIS

Monday, September 29th, 1913

by

MR. BLEWETT LEE
OF CHICAGO, ILL.

The Railway Situation and its Causes

In Address Delivered

at

THE TRANSPORTATION CLUB
OF CHICAGO

January, February, and March

1890

BY

Mr. Chairman and Members of the Transportation Club of Indianapolis:

When a man gets to be old there is something very unpleasant and unfortunate which happens to him. It is hardening of the arteries. The blood vessels lose their elasticity and grip. They refuse to stretch any more. The blood pressure becomes dangerous, and by and by the man dies.

The railroads of this country are its arteries, and traffic is its life blood. The business of the country is growing almost by leaps and bounds, but the railroads do not grow to keep pace with it. The railroads are scarcely growing at all. They need more lines, more branches, more tracks, more terminals, more cars, more everything. Unless this situation changes, the business of the country will be bursting its arteries.

What is the matter? The railroad men tell you they can't borrow the money necessary to make these improvements. The companies are, many of them, living from hand to mouth on short-term notes. At this very time three of the great Western systems are in the hands of Receivers, the Wabash, the Frisco and the Pere Marquette. Why can't the railroads borrow money? Well, thereby hangs a tale.

In the first place, the prices of all supplies have gone up. Everywhere the railroads have to pay more money for what they need. The decrease in the cost of production of gold or some other reason has reduced the value of a dollar until it will not buy anything like what it did a few years ago. The average receipts per ton-mile have changed very little since 1900, but the purchasing power of the money has declined on the average at least 25%. The yardstick is being shortened all the time.

In the second place, the wages of labor have risen and are rising like a steady tide. Not that I blame the laborers for trying to get more wages—for wages have not risen as fast as the cost of living—but I do think the laborers are demanding more than the railroads can afford to pay. The national labor organizations are stronger than the railroads. Every threatened strike means an arbitration, and every arbitration means a compromise, and every compromise means a further depletion of the meager revenues of the railroads. It is not generally known that one of the chief obstacles to electrification is the insistent demand of the engineers' and trainmen's organizations that the men, who do the work of a motorman on an interurban line, shall receive the same pay as a locomotive engineer. It is obvious that this demand, which the railroad companies are not strong enough to resist, practically deprives the public of the economy of electrification and indeed takes from electrification the most important economy which it has to offer.

By comparing the statistics of the Interstate Commerce Commission for 1902 and 1912 it will be found that while the total operating revenues have increased 64.6% the total operating expenses have increased 75.5%, of which the total compensation of employes increased 84.9%, as compared with the total other expenses which have increased 61.1%. The ratio of compensation of employes to the total earnings which was 39.9% in 1902, rose to 43.9% in 1912, and the ratio of compensation of employes to total expenses rose from 62.4% in 1902 to a total of 63.4% in 1912. As against this, the average rate per passenger mile in the United States in 1902 was 1.986 cents, and in 1912 it was 1.985 cents; and in 1902 the average rate per ton mile was

.753 cent, and in 1912, .743 cent. In other words, both passenger and freight rates were lower at the end of the decade than they were at its beginning. Labor is getting the best of it, both absolutely and relatively. The railroads pay out about a billion and a quarter dollars a year in wages.

In the third place, the heavy hand of legislation, State and Federal, is laid upon the railroads. We are being stoned to death with statutes. The Government has taken all the privileges of ownership with none of its responsibilities. In Europe cars are still coupled on the link and pin plan. Why? Because after careful inquiry the Governments found the railroads could not with their present earnings afford the expense of changing all their equipment. Imagine such an answer as that being taken in this country! Why, a railroad man who had the nerve to stand on that position would be thrown to the newspapers. They would make "Mellen's food" of him. Railroads are the great popular plaything. There is more and more legislation all the time which wears the amiable mask of care for the public safety, but is really intended to force the employment of unnecessary men, to strengthen the monopoly of employment in the hands of the great Unions, to compel the purchase of favored illuminating or safety devices, or to force the erection of decorative depots, veritable cathedrals of industry, in obscure communities. Population between 1890 and 1910 increased 47%, but the number of railroad employes 109%.

In the fourth place, there is the steady progress of rate reduction sometimes by the direct action of the Legislature, as where by law passengers are compelled to be carried without profit, the freight-shipping public being saddled with

part of the expense of the traveling public, or by the pull down of this rate or that by Commission action, each reduction, as you gentlemen very well understand, automatically pulling down a lot of other rates not reduced by name. A railroad now has to haul an average ton of freight two and a half miles to earn a postage stamp. The Interstate Commerce Commission, I am glad to say, is beginning to go slower about rate reduction in view of the stop which has come to new railroad construction in the country. The State Commissions, however, are not disturbed by little symptoms of that kind, but following the glorious example of Texas, continue to punish Wall Street, and incidentally themselves, as opportunity offers. There are exceptions to this, notably in case of the Wisconsin Commission, which has administered its great office as a public trust. But many of the Commissioners in other States who are for the most part ridiculously underpaid, look upon their positions simply as political stepping-stones to the Governorship, or what not, and insist all the time on playing St. George to the railroad's dragon.

Fifthly, there is the overtaxation of railroads. In many communities railroad taxes have more than doubled in the last ten years. They are now paying more than \$120,000,000 a year taxes. Railroads really ought not to be taxed at all; if necessary rates should be reduced instead, for in the nature of things all the taxes which they pay they necessarily collect over again from the people. A tax on railroads is a tax on shippers. It is indirect taxation of the people based upon their necessities instead of direct taxation, based upon their capacity to pay. But you couldn't make the average citizen see that obvious fact—he has an

idea perhaps that railroads literally make money, or possibly inherit it from rich uncles. The stupid process of piling up the taxes on railroads leaves them with less and less money for needed improvements, and instead of permitting a reduction of rates, makes an increase inevitable. One dollar in every six of net operating income is now taken for taxes. The wages and taxes paid by railroads amount to nearly four times as much as the dividends paid on their stock.

Sixthly, the growth of personal injury litigation has become a serious factor in the railroad financial situation. In spite of the fact that such injuries are not increasing but are diminishing in numbers notwithstanding the increase of traffic, the amounts paid in damage suits and settlements have enormously increased. Between 1908 and 1912 the number of passengers carried increased about 15%. There were nevertheless only 114 passenger fatalities in 1912 as compared with 148 in 1908 and only 621 employe fatalities as against 659 in 1908. Notwithstanding this there was a heavy increase of the amounts paid out for personal injuries. Indeed, in the thirteen years between 1899 and 1912 the amount paid by the railways of the United States for injuries to persons increased 288%. The railroads of the country are bleeding at every pore from this character of litigation. Certain localities have distinguished themselves by extravagant verdicts and suits are being brought in these places from all over the country. Bleeding railroad companies in this way has become a highly organized industry which laughs to scorn the feeble fulminations of the common law against champerty and maintenance.

Still another consideration is the rise of the rate of in-

terest in corporate finance. Instead of borrowing at four per cent. even the most fortunate corporations now, and probably for a long time in future, will have to pay at least five per cent. for long time money upon the best security, with rates correspondingly higher on short loans.

What is going to be the outcome of all this? The ultimate result, I fear, is government ownership, with worse administration of the railroads than ever before, and practically no remedy or redress for its shortcomings. We will then be about as helpless about our freight as we now are about our mail. Meanwhile we can only pray:

Be near us when our goods

Are slipping o'er the brink.

We are nearer government ownership today

Perhaps than now we think.

What is to be done about it? Why there is only one thing that offers any present hope of relief and that is a moderate but general increase of freight rates. Just as long as the relative adjustment of rates is not changed, nobody would be seriously hurt, and the railroads would be able to show the bankers such a balance sheet as would justify the necessary loans. That is the remedy that England is applying today, and that is wise business sense in America too, and wise statesmanship also, for it would be ultimately for the benefit of the whole public.

Now I confess that I am not very hopeful that the necessary thing will be done, for it requires an amount of moral courage on the part of public men which is painfully absent in public life. To do the presently unpopular thing for the sake of the distant and certain public good takes a certain heroic quality which is very rare. No man wants to be a

martyr. What is more likely to happen is that the railroads will continue to sit tight and hold on to every dollar they can, until the pressure of the inevitable increase of business becomes so great that even at present rates they will be able to make a living. Slowly from the grinding necessities of a reluctant people at last by bitter experience will be extorted a sufficient reward to capital to induce further investments in railroad property.

The mills of God grind slowly,
 But they grind exceeding small,
 Tho' with patience He stands waiting
 With exactness He pays all.

The short-sighted greed which compels carriers to work for less than a living wage, will be succeeded by the want, the pressing want, of railroad facilities with no means to get them, for nobody on earth can be compelled to send good money after bad. In the present state of affairs in this country investments in railroads are bad money, and until they are made good money by better rates and fairer legislation, the savings will not be coaxed out of Eastern and European strong boxes. The ancient call of "Ducky, ducky, come up and be plucked" has somehow lost its charm, and those bond-buying savings banks have developed a wholesome fear about not getting their interest on new railroad investments. The necessity for improvements is upon us, the money is really there, but the confidence is lacking, and in all frankness it ought to be lacking until a change comes over the treatment which the State gives to its railways.



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